

long distance at a minimum be conditioned upon an effective date after accounting rules are in place, in the case of Ameritech Michigan no such entry should be allowed until there has been an investigation of ACI/Ameritech Michigan as those rules apply.

**3. Diversification increases liability exposure that inherently puts ratepayers at risk.**

The insurance/liability exposure aspect of the transition from a regulated monopoly to a market-driven environment has received scant if any public attention, even though it may require a seismic shift in how the operations of an RBOC are insured. At the time of divestiture the new RBOCs continued to function as in the days of old, with a high degree of insulation from the types and extent of liability exposure and insurance headaches that are routine in the competitive marketplace.

In some instances tariffs, for example, sharply limited the extent of liability the phone company faced from subscribers to its Yellow Pages, even for egregiously inaccurate or negligently misplaced ads that resulted in extensive and documentable damages. In other instances, standard consumer protection and mini-FTC statutes typically enacted in the 1970's, routinely included exemptions for the activities of common carriers and utilities. As a result, standard legal recourse were foreclosed that consumers otherwise could seek when victimized by false advertizing, breach of contract, etc.

Such forms of liability insulation were justified by the same overriding public interest principles that were the

underpinning of the many invaluable advantages a government-sanctioned monopoly enjoys in exchange for its carrier of last resort and other monopoly responsibilities. Insulation from liability also furthered administrative efficiency so that there would not be duplication of effort between the regulatory commission and other agencies or departments with consumer protection jurisdiction. With deregulation and the emergence of competition, that luxury of being insulated from the same liability exposure faced by their competitors will no longer be justified. The current transition is challenging.

Before potential competition was seen as an emerging force, most utility regulatory commissions had little if any expertise or experience in insurance practices. They confined their review to a perfunctory determination of whether the premium amounts paid corresponded with the amounts charged. That was, and still is the major thrust of utility regulator involvement in utility insurance issues.

Once forced to examine the issue in the context of affiliates and subsidiary cross-subsidization, however, various findings shed light not only on that practice but on imprudent management judgments. Those findings now take on far more significance, both because of RBOC continued rapid operational expansion and because so many of those expansions are deep into areas of potential high liability exposure and are far afield from RBOCs' core business.

Consider the escalating number of activities that Ameritech is now spawning, each of which inherently entails liability exposure for Ameritech, the parent holding company of Ameritech Michigan. A few examples are illustrative: beginning last fall Ameritech began offering "The Signatures Group Tax and Legal Service Plan" to its small business customers, "offering advice and assistance on legal and tax matters...access to the services of 2300 lawyers and tax experts." The promotional flyer (See Attachment D) says the Plan

"... also includes tax specialists who are admitted to practice before the US Tax Court--an accreditation which very few tax experts in the nation hold."

This would certainly seem to suggest that accreditation to the US Tax Court is some indication of some particular tax expertise, competence or experience. This was also the interpretation by the Admissions office of the US Tax Court, who explained that no such inference should be drawn. All that is required for admission to the US Tax Court is for the applicant to provide date of birth, evidence that the attorney is in good standing at a court of local jurisdiction, and a check for \$35. Is it unthinkable that a subscriber to this plan, dissatisfied with the assistance and advice provided by a tax expert they feel Ameritech implicitly overstated might include Ameritech as a defendant?

Another Ameritech service offers to consolidate and centralize entire school system records, including not only grades and achievement test scores, but even more highly sensitive information from students' counseling and medical records; <sup>61</sup> another Ameritech operation offers security monitoring; still another offers health care information, etc.,

It takes no major leap to anticipate litigation resulting from unauthorized access to sensitive school records, left vulnerable because of inadequate security; litigation as a result of death or aggravated health problems alleged to result from Ameritech's faulty transmission or software or its failure to design adequate measures to minimize unauthorized access; litigation alleging that valuable items were stolen as a result of nonperforming security alarms, etc.

One might think that such operations and potential liability exposure are irrelevant to the pocketbooks of the Ameritech Michigan ratepayer. They are relevant for at least two reasons.

---

<sup>61</sup> Demonstration of Ameritech SuperSchool's Administration Center. At the "hands on" demonstration projects of SuperSchool, Ameritech touts the efficiencies of consolidating into one central network the various information from area schools including data on each student from the records of the teachers, counselors, etc., Considerable data is sensitive including diagnoses and evaluations, medication taken, family and emotional problems that are the subject of private counselling sessions, unlisted/unpublished home telephone numbers that are not to be provided to the other parent, and a host of other extremely delicate information in need of strict privacy protection with safeguards against unauthorized use.

First, there is the above-described concern about cross-subsidization. Second, such diversification, especially into high risk operations, also increases the likelihood that Ameritech and/or one of its subsidiaries may be the defendant in increasing levels of litigation. The customers of Ameritech Michigan cannot be totally insulated from the financial risks associated even with operations housed in separate subsidiaries.

A catastrophic problem (or series of significant losses) that is devastating to the financial health and/or continued viability of any separate affiliate or subsidiary, may well affect more than just the shareholders of that separate affiliate no matter what structural safeguards have been put into place. It is worthy of emphasis to recall that the bond rating, and thus cost of capital of the local exchange company, is established vicariously through the bond rating Wall Street conveys to the parent holding company (in this case Ameritech). If one of the unregulated Ameritech subsidiaries were to financially collapse or in some way trigger a downgrade, it would simultaneously affect the regulated subsidiary and its cost of capital.

Claiming that its costs have gone up as a result, Ameritech Michigan could cite that development as a legitimate trigger for increasing rates. A different anti-ratepayer affect would be if the monies diverted to capital procurement as a result of such downgrading were monies that otherwise would have been reflected in lowered rates.

Just as utility regulators have not been in the habit of examining utility practices related to risk management, insurance procurement, etc., neither are monopolists in the habit of having to exercise the same insurance and litigation prevention business judgment that are routine in the competitive marketplace. The insurance-related ratepayer issue during the continuing transition from monopoly to possibly fully competitive enterprise, can be framed as follows: Who, if anyone, has taken an expert look at this aspect of Ameritech's diversification, to at least assure captive ratepayers that the risks have been minimized to the maximum level possible using appropriately prudent insurance procurement practices.

Neither insurance regulators nor state utility commissions have examined, let alone taken steps to protect against the specific and significant insurance-related concerns implicit during this transitional period. MCF urges the MPSC to direct at least some review to determine whether fundamental prudence has been exercised to minimize the financial calamities that would affect ratepayers.

#### **VI. Lessons from Divestiture**

- o Residential customers are the last to see the benefits of deregulation.
- o Safeguards must receive as much regulatory attention as entry authorization into new markets.
- o Dialing parity, permanent number portability solutions, and other practical implication of the competitive checklist

are key to any chance of local competition becoming a reality for residential customers.

- o Regulators must vigorously monitor marketing and advertising to protect consumers against deception and distortion.

- o Regulators must reject LEC attempts to have the best of both worlds by their insistence that they receive not only the privileges of competition but the benefits of being a monopoly. That is precisely the goal of "rate rebalancing" and other LEC gimmicks reminiscent of the divestiture myth of subsidized local rates.

- o Regulators must eliminate unfair monopoly revenue streams before entry into new markets is allowed.

- o Only regulators can play the needed role of consumer education in gathering, reviewing and making publicly available information residential consumers need in order to perform intelligently in any competitive markets that may emerge. That includes information about price and service quality performance.

Competitive market forces do not develop overnight and residential customer needs are the most inelastic and least likely to benefit from competition in the short run. In the absence of such market forces, government protections are essential. They must be removed only when, and only to the extent that effective competitive market forces can take their place. Whether the benefits of competition are ever realized by residential consumers depends in very large part on how vigorously regulators play their rightful role during this time of transition to ensure that safeguards receive as much attention as entry into new markets. It cannot be overstated that competition will come unevenly for different customer classes and different parts of the state. This demands that regulators give

careful attention to and analysis of the facts of competitive analysis and not propaganda.

Divestiture was only supposed to have affected long distance rates and premises equipment---in both categories prices were to go down. Dialing parity was key to any first step in meaningful competition in the long distance market. After divestiture, long distance rates fell first and hardest for daytime rates, overwhelming used by business customers. The evening and nighttime rate decreases that benefitted residential customers were meager for years. The opportunity to eliminate the monthly cpe charge caught on at an uneven pace as customers were leery to risk the calamity that local phone customer employees were trained to depict. Similarly, unbundled inside wire maintenance became the subject of deceptive telemarketing and advertising and continues to be the source of much customer confusion and LEC manipulation. It is illustrative of the tough role the MPSC must take in monitoring the marketing and advertising behavior of Ameritech Michigan.

More discouraging than the slow pace of some aspects of competition was the instant exploitation of divestiture by the LECs. In the first few years after divestiture, the average local residential phone rates increased 40%---far more money from their pockets than was saved from the eliminated cpe costs and lowered long distance rates for those families with significant long distance usage. Divestiture became the launching pad for



skyrocketing increases in local rates---all justified as fallout from the breakup. Too many regulators of local service allowed insupportable claims to take hold that there had been a subsidy for local service (as discussed above) that now needed to be compensated for with higher rates. Subsidy myths are back in different packaging. But they must be resisted as well as unjustified and anticompetitive claims for "rate rebalancing." Safeguards and consumer protections must have enforcement resources and a strong commitment from regulators if those safeguards are to have any meaning.

Before divestiture even took effect, a number of decisions deprived local ratepayers of monies that were rightfully theirs.

- o local customers were deprived of the their rightful receipt of monies for the "good will" component associated with the phone stores that were sold at the time of divestiture.

- o local customers often ended up subsidizing the billing and collection services performed for long distance customer because the LECS did not demand and received adequate compensation for the billing & collection responsibilities they assumed.

- o unbundled service for inside wire became illustrative of the ability of LECs to exploit consumer lack of experience in the decisionmaking process.

During this transition it will be important for regulators to cut off current monopoly revenue streams that come in the form of excessive rates as well as those that are provided indirectly through cross-subsidization.

In addition to making price and service quality performance information publicly available in a form that consumers can

understand and use, regulators must be aggressive in prevent and punishing deceptive and exploitive marketing practices.

## **VII. Conclusion**

Ameritech Michigan would have us look at the competitive analysis as if it were an aerial photograph of the state with Ameritech Michigan's market in one solid color. By Ameritech Michigan's reasoning, as soon as one downward glance revealed even the tiniest speck of a different company's color in that market, Ameritech Michigan had demonstrated that it is in a competitive local market. That approach is unsupported by the language, purpose or history of Sec. 271.

### **MCF urges the Commission to conclude that:**

- o It is premature to verify Ameritech Michigan compliance with the competitive checklist.
- o The local telephone market in Michigan is not competitive; the bottleneck has not yet been eliminated.
- o Holding out long distance entry authority as the incentive for breaking up the bottleneck is essential.
- o Regulators have the continued responsibility to ensure that the needs of local residential consumers are paramount; they must not be sacrificed for the theoretical benefit of long distance customers.
- o Ameritech Michigan's continued defiance of MPSC Orders related to local competition compels extra diligence in reviewing its assertions in the Submission.
- o The incentive of long distance entry authority is the only practical incentive for Ameritech Michigan to provide adequate service quality, and to invest in the network in Michigan.
- o At present, the potential benefits of increased long distance competition as a result of Ameritech Michigan entry do not exceed the risks.

o Accounting and safeguard rules must be put in place with adequate resources and commitment to enforcement.

o It must assume its vital consumer education responsibilities as stimulus of competition.

o It must communicate to the FCC not only its consultive conclusions re: checklist verification, but also its concerns re: other requirements and safeguards that are part of the Sec. 271 process.

# Ameritech's Net Climbs 38% as Profit Before One-Time Items Increases 10%

By LESLIE CAULEY

Staff Reporter of THE WALL STREET JOURNAL

Ameritech Corp.'s fourth-quarter net income climbed 38% as earnings before one-time adjustments increased 10%, bolstered by strong demand for wireless services, enhanced phone offerings such as Call Waiting and basic telephone hookups.

Profit for the Chicago-based regional phone company rose to \$570 million, or \$1.04 a share, from the year-before \$413 million, or 74 cents a share. Before special items, earnings increased to \$552 million, or \$1 a share, from \$501 million, or 90 cents a share, in the 1995 period. Revenue advanced 10% to \$3.88 billion from \$3.53 billion.

During the 1996 quarter, Ameritech recorded an after-tax gain of \$18 million, or four cents a share, related to the sale of its interest in a cellular telephone company in Poland. The 1995 fourth quarter included an after-tax charge of \$88 million, or 16 cents a share, for work-force reductions and related actions.

For the year, Ameritech said earnings before one-time adjustments increased 12% to \$2.12 billion, or \$3.83 a share, from \$1.89 billion, or \$3.41 a share, in 1995. Revenue increased 11% to \$14.92 billion from \$13.43 billion. Results in 1995 included an after-tax gain of \$79 million, or 14 cents a share, related to lump-sum pension payments, as well as a one-time gain of \$41 million, or eight cents a share, relating to the exchange of minority interests in cellular partnerships.

Ameritech has been spending heavily to build cable-TV systems throughout its Midwest service territory; beef up its security-monitoring business, and prepare for entry into the \$70 billion long-distance market. The Bell has also continued to pour millions into promotions for its wireless, enhanced and basic services, translating into fat operating expenses for the quarter and the year. Analysts said those expenses jumped nearly 10% in the fourth quarter, once restructuring charges were removed, and almost 13% for the year.

Analysts said the spending appears to be paying off. Sales of enhanced services, such as Caller ID, and paging customers have increased sharply. Year-over-year growth in regular phone lines, a benchmark of a Bell's fiscal health, grew 3.4%. "They've done a very good job of stimulating demand for new services," noted analyst Frank Governali of Credit Suisse First Boston Corp.

Ameritech recently became the first Bell to ask the Federal Communications Commission for permission to enter the long-distance business and aims to begin selling those services by midyear in Michigan. Most Bells don't think Ameritech will be successful in meeting the federal "checklist" showing its markets are open to competition, as required under new telecommunications rules adopted by Congress last year.

But executives at other Bells said Ameritech's move will force the FCC to define more clearly its criteria for letting the Bells into long-distance. A clearer definition would work to the benefit of all the Bells, they said. Others have said Ameritech's filing falls so short of the rules that it will be dismissed almost out of hand. The FCC has 90 days to issue a ruling on Ameritech's request.

Attachment "A"



**Michigan Bell**  
AN AMERITECH COMPANY

**KENNETH E. MILLARD**  
President and Chief Executive Officer

444 Michigan Avenue  
Detroit, Michigan 48226  
Phone 313/223-7171

**September 19, 1991**

**Detroit, MI 48202**

A bill that's critical to the economic vitality of our state is now before the Michigan Senate. It's supported by a diverse, rapidly growing list of organizations and leaders from around the state including the Michigan State Chamber of Commerce and the Telephone Association of Michigan. I hope we can count on backing as well.

By modernizing the state's 78-year-old telecommunications law, Substitute Senate Bill 124 would help Michigan by stimulating the faster introduction of new products and services, lowering long distance rates, creating 150,000 new jobs in the next decade and maintaining reasonably priced, high quality phone service.

To give you more insight into the bill, I've attached a two-page news article written by the Gongwer News Service in Lansing on the latest version of the bill. Also enclosed is a one-page summary which our analysts have prepared.

As is true with any piece of legislation, Substitute Senate Bill 124 has groups with opposing viewpoints. Most of this opposition, we believe, is inappropriate -- favoring the status quo of regulation for companies like Michigan Bell and virtually unfettered freedom for our hundreds of competitors.

- 2 -

I know that as a matter of corporate policy, favors marketplace competition. Since Substitute SB 124 would greatly increase competition in the telecommunications marketplace -- and stimulate the many positive effects which competition causes -- I'm asking that you support it and communicate your support throughout

If there's any more information I may provide about Substitute SB 124, I hope you'll call me.

Sincerely,

A handwritten signature in cursive script that reads "Ken Millard".

Kenneth E. Millard

**They don't care.  
They don't have to.  
They're . . .**

# ***THE PHONE COMPANY.***

**By Lawrence Budd**

In 1987, regulators found that Ameritech had billed customers some \$2 million for expenses like airline tickets and corporate contributions . . . Could this be a preview of things to come? Does Ameritech have your number?

---

## Many worry that with relaxed regulation and no legitimate competition, Ma Bell's aggressive successor may overcharge customers, skimp on investments and crush competitors looking for a place on the electronic frontier.

**A**meritech is holding your keys to the information superhighway.

Since its creation 10 years ago in the government's break-up of the world's largest corporation, this Chicago-based multinational corporation has gradually adjusted its focus from customers and service to the bottom line and monopoly profits. In the coming decade, Ameritech will continue to control the lines providing you with plain, old phone service and connecting you with a booming plethora of services available in cyberspace, the virtual frontier of the 21st Century. With relaxed regulation and no legitimate competition, experts worry Ma Bell's aggressive successor will overcharge customers, skimp on investments in Ohio's telecommunications hardware and crush competitors striving for a piece of Ohio's telecommunications frontier.

Regulator Ashley Brown held a high opinion of Ohio Bell in the early 1980s. It was still the Cleveland-based arm of American Telephone & Telegraph, one of the most powerful corporations in the world, the public-utility equivalent of a benevolent dictator.

"They were slick. They knew what they wanted to do, but they were relatively up-front," said Brown, a commissioner of the Public Utilities Commission of Ohio for 10 years beginning in 1983, the year before the AT&T breakup.

Then Ohio Bell became part of the Ameritech Corp. and, Brown says, the company's executives "became less and less trustworthy. They began to use power in ugly ways."

"They told us what they thought we needed to know to do what they wanted us to do," said Brown, now doing utility policy work at the Kennedy School of Government at Harvard University.

"They became less and less concerned with local concerns and more and more interested in what the corporate muckety-mucks in Chicago said. Sometimes they were just flat dishonest."

The shift from warm-and-fuzzy Ma Bell to the cost-cutting aggressiveness of Ameritech has resulted in poorer service, but a fatter profit margin. In fact, Ameritech now takes pride in billing itself as "the most efficient" Baby Bell. In other words, Ameritech, which already has slashed 10 percent of its employees, squeezes more work out of employees who have survived the layoffs.

"Ohio Bell was known for providing quality service," Brown said. "Ameritech came to measure progress by how many people they fired. That was their view of human progress."

Brown's experiences with Ameritech, the monopoly provider of telephone service to most Ohioans, jibe with the findings of a nine-month investigation focusing on the Ohio phone company's operations.

Lawrence Budd is a Cleveland native who received his BA from Bowling Green University. He was a copy aide for *The Washington Post* and a reporter for several West Texas dailies. Most recently, he worked with the *Elyria (Ohio) Chronicle-Telegram* where he won awards for his investigative reporting. This piece appeared in a different form in the *Columbus Guardian*. Lawrence can be reached at 102741.3475@CompuServe.com.

©1995 Lawrence Budd



**Among the findings:**

1. In one regulator's words, Ameritech's response to customer calls has gone "in the toilet." For the past two years, some Ohio customers have had to wait hours, days, even weeks for Ameritech to answer customer calls — even though it is required by law to answer nine of 10 calls in 20 seconds. The PUCO, which fined the corporation \$30,000 early this year for failing to answer its phones, recently settled with the company after a full-blown investigation found a general deterioration in Ameritech's service. The company agreed to more than \$250,000 in credits to customers and promised to invest \$41 million. Ameritech also faces up to \$690,000 in fines by the end of the year, unless it meets state standards for repairs and installations — and answering customer calls.

2. Despite state and federal regulations, Ameritech has not only charged customers in the five-state region higher and higher rates, but also for expenses which should have been paid by the company or its stockholders, such as \$30 million for unused office space at corporate headquarters in Chicago and air fare to Dublin, Ireland. To settle its most recent run-in with government auditors, it agreed in July to pay \$675,000 and "make serious and substantive changes" to its bookkeeping.

3. Last year, Ameritech hired away a key Ohio regulator at the height of the case that would set the ground rules for relaxing regulation of phone service in Columbus, Cleveland and the rest of the company's territories in Ohio. The employee, who at public expense developed a national reputation, sat useless in PUCO offices and collected about \$10,000 in salary from the state, while Ameritech and an upstart competitor conducted a bidding war for his services.

4. In 1988, Ameritech representa-

tives dominated political machinations that led to the passage of the state law that allowed the company to take the first steps toward deregulation in January. Originally called "the most difficult and controversial bill that we will deal with" by a key legislator, a compromise version was passed in three days by a lame-duck session of the Ohio Legislature. A provision of the bill giving Ameritech "veto power" compromised negotiations in the January case, while another granting it an "exclusive franchise" in its territories has slowed the progress of aspiring competitors.

What does this mean to you, the customer with little choice? A monopoly without competition or strict regulation naturally charges more for its products, while providing fewer options. It is less likely to invest in new technologies, until it has squeezed the last dime of value from existing equipment. Rather than improving the product, the company can reinvest its monopoly profits in an advertising blitz or overseas ventures. You may find yourself steering along the information superhighway in an overpriced, technological Edsel. And service, an Ohio Bell tradition, could become a victim of the bottom-line mentality at Ameritech.

***Ameritech Puts Ohio Customers On Hold***

All Dick Butterworth needed when he called Ameritech in December 1994 was the routine relocation of two telephone lines, including one for his wife's home office. He left a message and waited for a call back. He waited, and waited, and waited.

"It was a shocker," said Butterworth, a long-time customer used to quick responses.

It wasn't as if Butterworth had called a private company expected to

cut costs to maximize its bottom line. By Ohio law, an Ameritech employee has to answer 90 percent of customer calls in 20 seconds.

"I waited. I figured someone was going to call," said Butterworth, a Columbus man overseeing the addition of a room to his Columbus home. "They never did."

Two weeks later, Butterworth called and was put on hold again. He hung up, but called back early the next morning determined to speak with a human being and reached an Ameritech representative who scheduled the work. Eventually, both lines were relocated and his wife was able to get work done for her employer - Ameritech. Butterworth's case was hardly an exception.

For two years ending in early 1995, Ohio's largest phone company failed more often than it met minimum quality standards for answering customer calls, affecting millions of customers. Ameritech Vice President James Smith dismissed the service problems as "bumps in the road." It was more like a complete breakdown. And the service problems continued — and multiplied — later in the year.

In three of the four months ending 1994, Ameritech failed to answer about half - or 1.2 million - of its calls, in the required time. The statistics, kept by Ameritech, would have been even more damning, except the company counted among its successes callers who hung up before a company representative came on the line.

From April 1994 to April 1995, 548 Ameritech customers were ticked enough to pick up the phone again and complain to the PUCO. "It was a 1,000-fold increase for us," said Rick Reese, who works in the PUCO public interest center which handled the complaints. (His first experience with Ameritech's poor service was as a customer forced to hold for long periods on several occasions before arranging

to have a second phone line installed for his home computer.)

For more than a year, while negotiating with Ameritech over relaxing regulation rules, the PUCO tried to convince the company to meet the standards without taking any formal action. In late 1994, the commission again asked the company to comply. Ameritech countered with a request for a four-month waiver.

Ameritech, its response time "literally in the toilet," according to PUCO compliance manager Michael Weiss, had the chutzpah to push the envelope further, to ask the commission not only to allow, but sanction, another four months of substandard service.

"For us, that was the last straw," Weiss said.

**T**he reason for the terrible service: Ameritech cut almost 7,000 workers in 1994-95, including many customer service representatives who took an early retirement buy-out. At the same time, the company switched computer systems, requiring even the most expert representatives to leave customer service phones for hours of training.

Weiss and the PUCO were not amused. "It was the customer suffering here," he said. "Ameritech had all the capabilities to plan this conversion."

The PUCO investigated and found Ameritech had violated basic service standards. The PUCO could have fined Ameritech, which reported \$12.5 billion in revenues last year, \$1,000 a day, or about \$500,000. But the PUCO fined the company only \$30,000, provided it met state standards by March 1995.

"It sounds like a drop in the bucket," said Lyn Galli, a Hilliard, Ohio, housewife who complained to the PUCO. She waited three days to change the security code on her long-distance service after responding to a company flier explaining how simply she could make the change.

*The 1995 Kiplinger Report*

Weiss acknowledged \$30,000 lacked any financial sting. In a week, Ameritech's chairman earns as much in salary and bonus - not including stock options and other compensation.

"The punitive damage is the bad press," Weiss said. "That's what they don't want." But the bad press was minimal. The commission did not announce what Weiss called an "unprecedented action." The *Columbus Dispatch* ran a short, superficial story on an inside page. There was little coverage elsewhere in the state.

**A**meritech officials downplayed the entire episode, chalking it up to the company's push to upgrade its technology. Vice President Smith likened the problem to building a new highway. "Traffic slows down. But when the orange barrels go down, everybody's happy." In fact, the company has cut spending on technology, while upping its advertising budget.

For a few months, Ameritech managed to answer its customer service phones. But in August, the PUCO began another investigation of Ameritech's shoddy service, after finding the company was not only failing to answer its phones, but missing repair and installation appointments and signing up customers for services they never ordered.

Ameritech offered to hire 500 workers and spend \$41 million to correct the problems. In October, the company and the PUCO reached a settlement. Ameritech agreed to offer \$5 credits to 51,000 customers who were without phone service more than three days and \$45 credits to 370 people left out of the phone book. The company also faces up to \$690,000 in fines, unless it meets state standards by the end of the year.

The PUCO's Weiss proved to be psychic. Asked in early 1995 if he was concerned service problems might persist, he said, "It could very easily come up again."

And the enforcement strategy taken by the PUCO, a sliding scale of

fines based on returning to compliance by January 1996, suggests continuing suspicions that Ameritech might otherwise continue to let customer service slide. After all, what choice do customers have?

### *Have You Financed Ameritech Ventures in New Zealand and China?*

**F**or years, regulators and consumer advocates have found instances of Ameritech passing on to you and other customers expenses that should have been covered by the company or its stockholders.

"If it weren't legal, it would be called money laundering in any other context," said Kathleen O'Reilly a consumer attorney involved in the first management audits attempting to spot the accounting shenanigans.

By shifting costs to the local phone company and profits to subsidiaries beyond a regulator's full view, Ameritech and other Baby Bells could subsidize foreign investments in New Zealand or China, or speculative land deals like the now-bankrupt multimillion dollar plan by actress Kim Basinger to develop a tiny town in Georgia. (In fact, pension-plan funds, which are factored into your phone rates, were used to underwrite this loser.)

In July, the Federal Communications Commission and Ohio and Wisconsin regulators reached a deal with Ameritech, ending a two-year wait for findings of an audit of 1992 transactions between the local phone companies and Ameritech Services, which provides support services to Ameritech's local phone companies in Ohio, Illinois, Indiana, Wisconsin and Michigan. Ameritech agreed to pay \$375,000 to the federal government, \$200,000 to Ohio and \$100,000 to Wisconsin and make "serious and substantive changes" in its

bookkeeping. In exchange, the regulators agreed not to take further enforcement action against the company.

Often unable to follow the paper trail required by the FCC rules, regulators were forced to rely on interviews with Ameritech officials. Still they found Ameritech Services had improperly billed the local phone companies. ASI had leased unused office space at Ameritech's corporate headquarters in Chicago — a \$30 million expense to you and other customers. Phone

company employees were transferred to ASI, which auditors said could have a "significant impact" on the portion of employee costs included in your phone rates.

**A**meritech insists it complies with rigorous state and federal bookkeeping regulations. However, a February 1993 report by the General Accounting Office found the FCC lacked enough auditors to ensure that phone companies follow the rules. Its 14 auditors could cover all seven Baby Bells only every 18 years, while federal laws allowed no penalties after five years — and Congress plans to cut \$40 million and 150 FCC workers over the next year.

Those audits handled by FCC auditors found \$300 million in questionable charges, the GAO found. Double-checking work done by private accounting firms, the FCC found another \$130 million in mistakes. Even with more auditors, "We can't do 100-percent assurance," said Ken Moran, chief of the FCC's management audit division.

In 1987, regulators from Ohio, Wisconsin, Michigan, and Indiana, found Ameritech Services had billed customers about \$2 million for expenses

including: air fare to Dublin, Ireland, for a trade show, a contribution to the National Urban League, a company exhibit at the Pan Am Games, golf tees, a bar tab and gifts such as pens, umbrellas, polo shirts and orientation tapes about Ameritech's Chicago headquarters.

Their interest piqued, Wisconsin regulators returned in 1988 and found \$33.6 million in questionable expenses between Ameritech's corporate headquarters and its subsidiaries: \$13 mil-

**Wisconsin regulators in 1988 found \$33.6 million in questionable expenses between Ameritech's corporate headquarters and its subsidiaries.**

lion for advertising, \$8 million for salaries and wages and almost \$1 million for its fleet of French jets and hangars.

And in 1993, before the FCC went public with the most recent audit, Illinois regulators found Ameritech charged almost \$79 million in improper expenses to local customers there.

Even the most expert regulators acknowledge it's virtually impossible to spot all the questionable expenditures in the pages of financial data describing transactions between a Baby Bell's numerous regulated and non-regulated subsidiaries. "It's like finding a needle in a haystack," said Jose Rodriguez, the FCC's chief auditor.

Some say these audits barely scraped the surface. Earlier this year, a New York telecommunications analyst produced a report estimating the Baby Bells had overcharged customers by \$75 billion since the AT&T break-up in 1984.

In five reports spanning 1,000 pages, analyst Bruce Kushnick estimates Ameritech and its siblings, sup-

posedly held to fair profits through regulated rates, could have grown into some of America's most profitable companies only by overcharging local customers. Kushnick's report more than doubles a Consumer Federation of America report accusing the Baby Bells of \$30 million in overcharges.

On the contrary, says Ameritech Vice President Smith, the company has actually reported a loss in the past two years. "Regulators have looked at the earnings and decided they are appropriate."

*A Star Regulator Uses the Revolving Door at the Worst Possible Moment*

**F**or years, Kurt Wesolek had considered leaving the PUCO for a more lucrative job with a telephone company. He had a wife and young daughter to provide for and a highly marketable and specialized expertise he had developed while on the state payroll. He chaired a regional panel of regulators created to monitor Ameritech and was nationally recognized as an expert in long-distance access issues, which are key to the ongoing relaxation of regulations that, since their creation, had barred the Baby Bells from offering long-distance service.

One supervisor referred to Wesolek as a "star." Another remembered him as a key member of the commission's team of regulators evaluating Ameritech's proposal to switch from traditional rate-based regulation to an alternative form giving the company the freedom to earn unlimited profits in some areas, while freezing rates in others. So it was especially difficult when Wesolek revealed to the PUCO in June 1994, a year into the deregulation negotiations, that he was talking with Ameritech about a job.

"He was pulled from everything

*The 1995 Kiplinger Report*

## Lawrence Budd

he was working on," said Kerry Stroup, the PUCO's telecommunications chief. "It was frustrating for me. I relied on Kurt for his expertise."

About 20 companies and special interests, from the American Association of Retired Persons to the Legal Aid Society of Dayton, were involved in the case. Wesolek had written several pages of the staff report. Before announcing his job hunting, he had been scheduled to testify for the state - against Ameritech.

"He left me in the lurch. We were in the position of having to do a lot of catch-up," Stroup said. While his co-workers scrambled to learn his specialty, Wesolek sat in commission offices, serving only as a resource for his last-minute replacements.

"This was the biggest case we'd had in several years. This happened at the most inopportune time," Stroup said. "Whether Ameritech did this for some devious corporate strategy, I can't say. I can't stop and think about it."

Wesolek, a \$20/hour employee, was paid about \$10,000. The wait was extended, when Time Warner, a company wanting a piece of the Ohio market, entered the bidding for Wesolek. "He was in the enviable position of playing one entity off against the other," Stroup said.

In September 1994, Wesolek went to work for Ameritech. Under state law, Wesolek is prohibited from appearing before or filing any documents with the PUCO for one year. However, nothing would have stopped him from immediately working behind the scenes against his former employers and the interests of the telephone customers of Ohio.

Wesolek told his PUCO supervisors he had been approached by Ameritech. Ohio law prohibited him from talking to them first. However, several PUCO officials said he had been shopping the telephone companies for jobs for several years.

Ameritech officials say they're

sure they approached him. Wesolek, who commutes on weekends between Ameritech's Chicago headquarters and his Columbus home, isn't talking about it. Reached by telephone, he said "I'm too busy to go into depth right now." He agreed to later do an interview, but never honored this agreement.

The Ohio Ethics Commission, the government institution charged with reviewing ethical questions involving commission employees, never looked at Wesolek's case. It was handled internally. "There was no case. This happens every day," said Steve Nourse, an attorney in a section of the Attorney General's Office serving the PUCO.

To an extent, Nourse is right. Jon F. Kelly, a senior Ameritech attorney, sat on the regulatory commission from 1981 to 1983. And at least four other former commissioners or staffers represented industry interests in the Ameritech deregulation case.

But Ronnie Fergus, Wesolek's boss and telecommunications chief before her appointment to the commission in early 1995, said Wesolek was only the second employee to resign from her staff.

Some experts take a harsh view of such cases and the inadequacy of "revolving door" laws supposed to protect the public interest. "It's god awful," said Nicholas Johnson, a former FCC commissioner now teaching at the University of Iowa law school. "It gives a bad perception as well as a bad reality. Perception is often more important than reality."

This fall, Wesolek will be free to represent Ameritech as the PUCO wrestles with rules governing competition and other hot telecommunications issues. This time, he will be taking the company's side, potentially opposing the interests of Ohio consumers.

Wesolek once aspired to politics. Perhaps he will someday hold an

elected office in Columbus, much like a former Ohio Bell employee, Dean Conley, the Ohio representative who sponsored the state telecommunications deregulation bill in the Ohio House of Representatives.

### *How Ameritech Used Political Influence to Legalize Its Interests*

Since leaving his job at Ohio Bell, Dean Conley had become an influential state legislator and chairman of the House Ways and Means Committee. At one time, he was touted as the next Ohio House Speaker. Conley was in the perfect position in 1987 when company representatives and Thomas Chema, the ambitious chairman of the PUCO, asked him to sponsor Ohio's telephone deregulation bill and shepherd it through the House.

Jackie Bracken, a lobbyist for the Ohio Consumers Counsel at the time, said she found a national pattern of Baby Bells cultivating employees in different states to push legislation favoring the companies' deregulation bids. Conley said his was a personal choice. Asked why the company approached him, rather than House Utilities Chairman Frank Sawyer, he said, "I used to carry a lot of real difficult issues." Sawyer's wife also worked for another telephone company.

Across the nation, states were deregulating telephone service, a key plank of the still vital Reagan platform. Nonetheless, other telephone companies, long-distance carriers and consumer advocates were skeptical of the original bill pushed by Ameritech representatives at Ohio Bell.

"There were a lot of differences on the bill," Conley said. The Legislature was also heading into an election year.

After a couple of committee hearings, the bill officially languished for

18 months. Behind the scenes, Chema, who later headed the Gateway Corp. in Cleveland, and Ameritech dominated private negotiations that resulted in a compromise version giving the PUCO broad powers to deregulate markets and including provisions that satisfied several of the bill's detractors.

The compromise version resurfaced in mid-November 1988, after the general election had sealed the fate of Ohio's 117th General Assembly, for better or for worse. To this day, Conley, now a lobbyist, and Sen. Richard Finan, who sponsored the Senate version, insist the bill received a full public airing. But state records show rewritten versions of the bill Sawyer described as "the most difficult and controversial bill that we will deal with in this session," were approved by the House and Senate in three days.

Ohio Consumers Counsel William Spratley led a frantic counterattack, barnstorming across the state to urge newspaper editors to oppose the bill on their opinion pages and blasting it and its supporters at the Statehouse itself.

**S**pratley next appealed to Gov. Richard Celeste for a private meeting. He had been one of the governor's favorites. In April 1987, Celeste presented Spratley with a special award during a celebration of the 10th Anniversary of the Office of Consumers Counsel, which Spratley had opened.

"All Ohioans can take pride in the work of Bill Spratley in leading OCC through its first 10 years," Celeste said.

**B**ut in December 1988, Celeste chose to rely on Chema's judgment and signed the bill. "They

rammed it through," said Spratley, who later resigned after the Legislature, stinging from his attacks, threatened to gut the OCC's budget.

Celeste was convinced by Chema's explanation that Ohio would otherwise fall behind other states, said Pari Sabety, Celeste's chief gubernatorial aide and now his partner in a consulting firm.

"To compete, we had to keep up,"

**Almost seven years after the Ohio telephone deregulation bill, Sen. Finan still gets riled at suggestions that Ameritech contributions to legislators' campaigns resulted in special favors.**

Sabety said, denying Ameritech lobbyists influenced the decision.

To promote this bill, Ameritech, still known in the state as Ohio Bell, paid nine lobbyists. And from 1986 to 1988, it dumped about \$44,000 into a campaign fund managed by Democratic leaders in the House and Senate. Finan and other legislative leaders were slammed in a series of articles in the *Akron Beacon-Journal* detailing how Ohio Bell employee contributions wound up supporting campaigns halfway across the state. Ameritech later set up a political action committee which legally funnels employee contributions to key legislators.

In the past four years, Ameritech's federal political action committee has made more than \$1 million in donations to Congressional campaigns. Not surprisingly, the House and Senate passed bills this year that

would allow Ameritech and the other Baby Bells into long distance, cable TV and manufacturing — areas forbidden since the AT&T break-up — despite warnings from skeptics, including President Clinton, who cautioned against giving the phone companies too much power. Still, a compromise version written by a joint congressional committee is expected to become law this fall.

Ameritech vice president Smith defended his company's aggressive and expensive lobbying and campaign contributions. "We have more work to do," he said.

In 1988, Ohio legislators were gearing up for upcoming elections and welcoming contributions from wealthy special interests, such as Ameritech. Chema's interest in passing the bill is less clearly selfish, although a law

firm in which he was a partner continues to collect fees to represent an Ameritech affiliate before the PUCO.

Almost seven years after the Ohio telephone deregulation bill, Sen. Finan still gets riled at suggestions that Ameritech contributions to legislators' campaigns resulted in special favors. "If we're going to talk about campaign contributions, the conversation's over," he said.

Finan also bristled at the suggestion that the Ohio Legislature did a shoddy job in its haste. "That bill did as much as it could do considering the political climate at that time," he said.

But critics say the bill bolsters Ameritech's position. Competitors point to a clause providing Ameritech and other Ohio phone companies an "exclusive franchise," wherever they have been doing business. Although Ameritech has waived the provision, companies such as Time Warner are

worried it may be used to unfair advantage in future negotiations.

And insiders say Ameritech wielded a "veto power" provision - criticized in 1988 by Spratley and declared unconstitutional in Utah - as a powerful hammer in negotiations ending early this year that relaxed regulations in Ameritech territories. Smith called the veto power provision "a check and balance in the system." But others who negotiated with the company say it would never have relented to dropping basic rates, except for \$92 million it had been caught overcharging customers in 1992-93.

Until the law is changed, Ameritech can operate more freely, making profits without limits for some services and charging you and other customers the upper end of price-capped rates for others. It could be years before competitors can get in the ring with Ameritech, forcing it to lower rates.

### *The Prospects for Competition*

**A**s a key assistant to PUCO chairman Chema, Barth Royer took part in the private negotiations that led to the 1988 deregulation bill. Today Royer works as an attorney for MCI Metro, a subsidiary of the nation's second-largest long-distance company, which wants to compete with Ameritech for local phone customers.

He says the lingering problems with the law and the PUCO's decision to relax regulations before there was competition have hamstrung his company's ability to offer Ohioans phone service at lower rates.

"You give Ameritech the best of

both worlds. You are allowing them to keep their monopoly position and begin pricing flexibility," Royer said.

While the PUCO wrestles with problems, such as whether you can take your number with you to a new company, competitors are faced with a dilemma. "If you wait until all these things are resolved, you're talking about years down the road," Royer said. "They'll be so entrenched." In other words, you could wind up with

**Stroup hopes that companies such as Time Warner and MCI will be able to break Ameritech's grip on the market, forcing the monopoly to lower rates, improve services and offer choices.**

little choice but to stay with Ameritech.

Ameritech has always had its critics. But only recently did the PUCO itself publicly chastise the company for its callous attitude.

"Senior management in Cleveland and Chicago are directed to make the necessary attitudinal and structural changes in the company's relationship with the Commission and its staff so as to ensure that this plan works smoothly for all concerned," the commission wrote in a summary of the settlement of the deregulation case.

As the PUCO's telecommunications chief, Kerry Stroup is charged with keeping Ameritech in line, at least until competitors get into the

market. Meanwhile, Ameritech can take advantage of the lack of competition - possibly compromising service and charging high rates to customers with no alternatives.

"With that comes the ability to abuse the system," Stroup said. The commission staff is checking phone rates to prevent Ameritech from overcharging, Stroup said.

But the PUCO must be careful to stay on open terms with Ameritech or

risk the company blocking access to financial information needed to ensure customers don't get soaked, Stroup said. "If the information shuts down, that's not in my interest."

Ameritech's Smith responded: "We'd like to have a better, more open relationship with the commission. It's a very stress-

ful environment."

**S**troup hopes that companies such as Time Warner and MCI will be able to break Ameritech's grip on the market, forcing the monopoly to lower rates, improve services and offer choices.

"The Legislature has spoken. We're in a position of trying to make it happen," Stroup said. "Until we can crack the market, Ameritech is in a position of power."

"They've got a 100-year start and all the customers," he said.

And a firm grasp on your keys to the information highway, the technological trail leading into the 21st century. ■

# Introducing a professional tax & legal assistance plan for less than \$5 a week.

Attachment "D"

Plus get your first 30 days FREE!

Ameritech Small Business Services knows you face challenging tax and legal issues every day. Chances are, you pay hundreds, even thousands of dollars for the professional assistance you need. That's why we would like to help you figure out an affordable alternative that doesn't sacrifice quality or convenience. Ameritech Small Business Services is pleased to introduce The Signature Group Tax & Legal Plan.

## Your tax and legal questions answered promptly and professionally

For only 19.95 a month, you'll have access to 2,300 attorneys and accountants. Attorneys in the network have an average of 14 years of legal experience. The Plan also includes tax specialists who are admitted to practice before the US Tax Court — an accreditation which very few tax experts in the nation hold.

Every accountant and attorney in the Plan undergoes a thorough screening process. To ensure that Plan professionals are responsive to your needs, The Signature Group monitors their performance regularly.

Your tax and legal issues will be responded to within 48 hours. Any matters you discuss are handled with the strictest of privacy and confidentiality.

## Save on Business Management Services

As a Plan member, you'll receive the most commonly required tax and legal services at no additional charge. What's more, you will be entitled to many other services at substantial savings.

**Call 1-800-295-2707  
now to receive  
your first 30 days  
FREE**

<b>Examples of Services Included in \$19.95 Monthly Fee:</b>
Phone consultations on tax and legal matters all year long
Review of legal documents (up to six 3-page documents per year)
Face-to-face consultation on any new legal matter
Guidance on benefit deductions, retirement plans, or other benefits for your business
Assistance on tax returns
<b>Examples of Supplemental Benefits Available to Members:</b>
Attorney fees fixed at \$90 per hour for legal matters not covered in the Plan
First debt collection call and/or letter by an attorney is \$20. Subsequent calls/letters will be handled on a contingency fee basis.
Debt Collection Representation — fee will be 25% of amount recovered
Federal tax return preparation (Sole Proprietor — \$79; additional charge for extra schedules)
And many other services at substantial savings!

Remember, there's no obligation and your coverage begins the moment you're registered. To begin your **FREE 30 day trial**, just sign and return the enclosed reply form. Or call toll-free at 1-800-295-2707. Please respond by December 31, 1996 to begin saving immediately. Sign up today! Then, whenever you need professional tax and legal information, recommendations or assistance, just pick up the phone and let the Plan professionals start working for you.

**Ameritech.**


## Membership Enrollment Form

☐ **Yes!**

I want to enroll in The Signature Group Tax and Legal Services Plan with all the benefits and services described in the accompanying materials. Please send me my complete membership kit including the name and phone number of the nearest Plan Attorney. I understand that the monthly membership fee of just \$19.95 will be charged to me on my Ameritech

Respectfully submitted,

MICHIGAN CONSUMER FEDERATION

Handwritten signature of Kathleen F. O'Reilly in cursive script, followed by the text "(by R. Hamlin)" in parentheses.

KATHLEEN F. O'REILLY

Its Counsel

Michigan Consumer Federation  
115 W. Allegan, Ste. 500  
Lansing, MI 48933

Kathleen F. O'Reilly  
Attorney at Law  
414 "A" Street SE  
Washington, DC 20036

Date: January 31, 1997



